Canadian Industries Limited

Annual Report

1943

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National Trust Company, Limited, Montreal

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Wartime standards of economy have been observed in the production of this report

ANNUAL REPORT

THE Directors have pleasure in submitting herewith the Annual Report of Canadian Industries Limited for the year 1943.

In peacetime Canadian Industries Limited recognized and endeavoured to fulfil a four-fold responsibility: to customers, to employees, to shareholders and to the community. The equitable treatment of each group, it was felt, constituted the nucleus of the broad obligation which industry owed to the nation as a whole. This concept of how management should conduct its affairs has of necessity been modified by the wartime objectives laid down for industry. In wartime the first duty of management is to secure from the resources under its control the largest possible production of those materials necessary for the successful prosecution of the war, and to co-ordinate policies, practices and operations with the aims of government.

The Company's sales, which do not include shipments made by Defence Industries Limited, have increased by 60% during the four years of war. Prices of commercial products are governed by "ceilings" and sales for direct war purposes have been at reduced profit. The investment in production facilities has been expanded by $9,000,000 since 1939 but net profits have declined in each successive year since the outbreak of war and, in comparison with 1939, earnings for 1943 at $5.88 per share were 31% lower.

Because the products of industry have become of major importance in waging war, the Company recognizes that the public is vitally concerned with the performance of every productive unit. The purpose of this report is to describe the manner in which the Company's responsibilities have been discharged.

OPERATING REVIEW

The period of large increases in the output of Canadian Industries Limited was confined for the most part to the first two years of war when additional manpower and raw materials were still available. Since that time the problem has been one of adjusting production to meet variations in demand, and total output which consists mostly of commercial products was much smaller than that of Defence Industries Limited, the subsidiary formed to undertake large-scale munitions production in government-owned plants. The operations of Defence Industries Limited are reviewed on page 8.

Although net sales of Canadian Industries Limited for 1943 were only 4% higher than in the previous year, there have been marked changes in the output of many of the Company's products. The degree of essentiality is a determining factor in the volume of production and the expansion in the output of vitally needed materials has therefore been accompanied by curtailed sales for normal purposes. Deliveries to Defence Industries Limited and to the Department of Munitions and Supply, which are largely direct war materials and included in 1943 the entire production of the nylon plant, constituted 15% of total Company sales as compared with 7% in 1942. New or altered products were developed in order to meet wartime needs and despite the construction of additional plant facilities some supplies of basic chemicals had to be diverted from regular customers.

The broad change which has taken place over a wide industrial front also had a profound effect during 1943 on chemical requirements. One of the most outstanding developments was the increased consumption of chemical products by the metal industries. Wartime conditions have also brought about a greatly expanded demand for fertilizers as well as increased consumption of chemical ingredients by the food processing industries. Sales of many of the remaining commercial products, which constitute a large portion of total production, declined during the year. The greatest reduction occurred in shipments to the mining industry, and was largely the result of the curtailed output of gold. There was a decrease in the use of dyes and other chemicals supplied to textile manufacturers and the demand for material for war purposes from the automotive industry was not as great as in 1942. Although sales to the pulp and paper industry became more stable, the volume supplied was well below the high level of two years ago.

Production difficulties and equipment breakdowns were of greater consequence during 1943. Reduced raw material supplies and labour shortages restricted the manufacture of some products but the situation appears to be easing slightly. In earlier war years the efforts of the technical staff were devoted to the development of new products and processes, to the construction of new plant facilities and to mitigating the dislocations of war. The main efforts in 1943, however, were concentrated on obtaining the maximum output from the equipment available. Technical assistance was nevertheless rendered to various government departments and on numerous occasions the personnel of the industrial divisions was called upon to help solve technical problems that arose in connection with the production and distribution of military supplies.

Cellulose Products Group

The growing importance of the products of the "Cellophane" Division in wartime packaging was evidenced by a steady advance in the volume of sales throughout 1943, after having been severely curtailed in the previous year. Attainment of this higher level of

operations was facilitated by the improvement in the supply of some raw materials following a decrease in the requirements of war industry. All of the increased output was allotted to packaging war materials and food for export and for the armed forces. The manufacture and distribution of "Cellophane" is under government control and the supplies available for civilian purposes continued to be limited to 50% of the amount consumed in the year ended August 1941. A waterproof as well as moistureproof type of cellulose film with improved heat sealing characteristics has been prepared to meet a demand arising out of wartime needs. The use of "Cellophane" in plywood moulding operations and in packaging not only dehydrated foods for export but also equipment for the armed forces, gave rise to a variety of problems on which the Division rendered technical assistance.

In spite of the fact that owing to the shortage of natural rubber the equipment for producing rubber coated fabrics was in operation for only a small part of 1943, sales in the "Fabrikoid" Division were at a record level. A larger proportion of total output was required for war orders and this was accomplished in part by a further diversion of productive effort from the manufacture of goods for civilian uses although all essential needs were met. Production of pyroxylin and synthetic resin coated fabrics exceeded any previous year and progress was made in the manufacture of rubber coated fabrics using one or other of the synthetic rubbers. Fabrics for conversion into wearing apparel constituted the major class of output, the principal item being raincoat materials supplied to the government. There was a decrease in the demand for goods to be used in the automotive industry. A serious shortage of cotton cloths necessitated curtailed production of many civilian articles. A wide range of materials was adapted or developed to meet specialized military requirements and to provide substitutes for unobtainable goods needed for essential purposes.

Practically all equipment for modern warfare requires protective coatings and in meeting this heavy demand sales of the Paint and Varnish Division, although slightly lower than in the previous year, were greatly in advance of peacetime levels. While giving precedence to the production of finishes for war purposes, many of which must conform to rigid performance specifications, every effort was made to provide the materials and services required for important industrial and civilian needs. This task was further complicated by raw material and labour shortages and difficulty in obtaining replacements of machinery. There were fewer changes than in previous years in the types of goods sold, but it was necessary to make a great many changes in their composition in order to utilize available substitute materials. Further progress was made in the simplification of products for civilian use. The major technical activity, however, has been the development for direct war purposes of coatings and finishes to provide maximum protection to every class of equipment under most exacting conditions. In this field the Division has benefited immeasurably from its industrial experience in pre-war years and from its efficient laboratory organization.

Difficulties in obtaining supplies of imported materials during 1943 were the chief cause of the slight recession in sales of the Plastics Division from the high level of the previous year. The heavy demand continued for "Lucite", a transparent plastic sheeting material used for aeroplane windows and gun bays. A decrease in the manufacture of safety glass affected sales of "Butacite" and "Plastacele", but there was an expansion in wartime requirements of synthetic resin adhesives, X-ray film and moulding powders. Dependence on

untrained personnel and delays in receiving equipment replacements hampered output of the products manufactured by the Division. Selling prices of synthetic bristle were lowered at the beginning and again at the end of 1943 and production, mostly allocated to toothbrush manufacture, increased in volume. Demand for toothbrushes, combs and some specialty items exceeded the supply and distribution has been by allotment. Although plastics have made a significant contribution to the war effort, a critical analysis of the present stage of technical development would indicate that the range of uses in the immediate postwar years may fall short of popular expectations.

Chemical Group

The plants of the Alkali Division continued to operate at very high rates in supplying throughout 1943 the heavy demand for chlorine and the expanded demand for caustic soda. Total sales for the year were higher than in 1942, chiefly attributable to increased consumption by metal processing and refining industries and the pulp and paper industry. Additional chlorine plant capacity was brought into operation during the year, the output of which was required to meet the enlarged needs of war plants, engaged principally in the manufacture of smoke producing chemicals. The chlorine quota established for the pulp and paper industry by the government in 1941 remained unchanged. Production of anhydrous hydrogen chloride, a material required in the manufacture of an important war product, was begun at a new plant early in the year and other extensions were completed to meet new wartime demands.

Although sales of the General Chemicals Division were approximately at the same level as in 1942, the requirements of some major consumers underwent considerable change. The over-all supply position of sulphuric acid, the Division's principal product, was somewhat eased in 1943 owing to the reduction in the quantities required for the manufacture of military explosives, and additional quantities were supplied for the production of fertilizer and the processing of non-ferrous metals. Other large-scale variations in industrial activity which affected the consumption of chemicals were a curtailment in production of pulp and paper and a reduction in output of textiles for war purposes. Capacity rates of operation were continued at all three plants throughout the year, despite limited manpower and problems of plant maintenance. The limitation of supply affected an increased number of materials and wartime restrictions imposed by the government on the distribution of chemicals were further extended. The technical staff has done particularly valuable work in advising on problems arising from use of substitute materials and alternative processes designed to maintain the general production program and to conserve the limited supply of scarce materials.

Early in 1943 additional facilities were brought into operation at the plant of the Nylon Division constructed in the previous year and in its first full year of operation the entire plant capacity was utilized to produce nylon yarn for war purposes. Most of the output was supplied to manufacturers of parachute shroud lines and canopy cloths and nylon yarn has also been used in glider tow ropes. No supplies were available for civilian purposes. Some difficulty was experienced in obtaining sufficient personnel but operating efficiency was improved by an active program of employee training and process research. Experimental and development work related to wartime uses of nylon yarn has been continued by the technical staff.

Manufacturing operations of the Organic Chemicals Division were at capacity levels throughout 1943 but

there was a further decline in consumption of resale chemicals supplied by the Division and total sales were lower than in the previous year. The demand from war and other industries for chlorhydrocarbons for metal degreasing continued to increase and output was materially expanded as a result of a plant alteration. Production capacity of hydrogen peroxide was also enlarged by minor additions to equipment. Reduced requirements of textiles for war purposes caused a considerable decrease in sales of dyes and the contraction in gold mining operations resulted in a marked drop in sodium cyanide sales. Advances in sales were recorded, however, for petroleum and rubber chemicals and polythene, demand for which was directly affected by war conditions. Neoprene importation after the middle of the year was undertaken by a crown company formed to handle all such products.

Utilizing all facilities to the maximum throughout the year, the Salt Division increased its sales over the 1942 total, but demand in general outpaced supply. Consumption of salt by chemical manufacturers and other industries engaged in meeting heavy wartime requirements continued at a high level and there were considerable advances in the quantities needed for meat packing, food processing and the farm market. To assist in meeting these increased demands sales of fine salt for ice control purposes were discontinued and imported rock salt was substituted in its place. Package changes and simplification resulted in economies and the conserving of scarce materials. The equitable distribution of available supplies was a major problem in 1943 and the co-operation of consumers materially aided in coping with the severity of the situation which by the end of the year was rapidly improving.

Explosives and Ammunition Group

In the early part of 1943 the manufacture and distribution of commercial ammunition was strictly limited by government order to the supplying of needs classified as essential. Additional plant capacity of the "Dominion" Ammunition Division was thereby made available to supplement the vast production of military ammunition from the government-owned plants operated by Defence Industries Limited. Managerial and technical services to Defence Industries Limited were continued and the heavy operating schedules at all plants engaged in producing military ammunition constituted a strain on the organization. Sales in 1943 were slightly lower than in the previous year mainly as a result of the government order restricting uses of commercial ammunition. Production for military purposes was again substantially expanded despite the many difficulties which had to be overcome. Sales of detonators declined, but heavy railroad traffic resulted in an increased demand for fusees and other track signals.

An adverse factor affecting sales of the Explosives Division in 1943 was the further decline in gold production. There was also less construction work on highways and other wartime projects such as air bases and power developments. An increase in supplies to base metal mines and greater output of military products were insufficient to offset the decreases and total sales were lower than in 1942. Materials for direct war purposes, which constitute only a minor proportion of total production, include anti-tank grenades, high explosives developed to meet special requirements and sodium azide. The technical staff has assisted in research on new types of explosives and the personnel and services which were made available to Defence Industries Limited at the outbreak of the war have aided the development of improved operating techniques.

Fertilizer Group

Total consumption of fertilizers in Canada in 1943 was greater by approximately half as much again as in the last pre-war year. All plants of the Fertilizer Division operated at rates well above designed capacity in spite of the restricted labour supply and sales reached a new high level. Factors contributing to the success in meeting the unprecedented demand were a careful scheduling of operations, the zoning plan introduced by the government for fertilizer shipments and further progress in achieving a greater degree of product standardization. Supplies of ammonium nitrate from government-owned plants helped to ease the raw material supply situation, but increased demands for potash exceeded the quantity available and to ensure equitable distribution the government imposed certain restrictions on its use. Although production of superphosphate had already been considerably expanded, output was below required levels and additional capacity is being provided. Agricultural insecticides and fungicides have been the subject of much study by the technical staff and sales continued to advance. Other technical activities of major importance have been the testing of substitutes for scarce or unobtainable raw materials and the developing of new products to replace those which can no longer be imported.

DEFENCE INDUSTRIES LIMITED

The year 1943 produced further striking evidence of industry's ability to meet the needs of war. Great as were the requirements of the armed forces, production by Defence Industries Limited of military explosives and certain types of small arms ammunition was more than sufficient to meet the output demanded. The original capacity of the plant for producing one important high explosive was greatly increased by the adoption of a process modification largely developed by the company which made it possible to obtain a very substantial expansion in output from existing equipment. Although it is not possible to calculate the resulting savings in expenditures of the public funds of Canada and allied countries, the amount is considerable.

As a result of the accumulation of adequate stocks of explosives, the government announced that production in Canada would be reduced in line with the steps taken in Great Britain and the United States. The two small company-owned plants at Beloeil, Quebec, were shut down in the latter part of 1943, and subsequently arrangements were made for termination early in 1944 of all operations at Nobel, Ontario, the first large-scale publicly-owned project undertaken for the government by Defence Industries Limited.

Total production during 1943 was higher than in the previous year. In addition to military explosives Defence Industries Limited produces in government-owned plants several types of small arms ammunition, primer and fuse powders, and an important chemical ingredient of smoke screens. Two shell-filling plants and a fuse assembly plant are also operated by the company on behalf of the government. While the demand for some products is still increasing, it has been officially stated that the expenditures of ammunition by the armed forces have been very much less than the estimated requirements, and this, combined with the changes in military strategy and tactics, has brought about lower schedules in the ammunition plants.

For the first time since 1940 no major project was under construction at the

end of the year. In the space of three and a half years the company has erected ten large-scale works and six smaller units. A large plant for small arms ammunition was brought into operation during the year and two units for the production of military chemicals were completed. Some extension of existing equipment was required and the changes in the type of demand frequently necessitated either some re-arrangement of plant facilities or conversion to new types of production.

From a peak of 32,300 employees in March there was a decline in succeeding months, but the average employment for 1943 was at approximately the same level as in the previous year. A factor of great importance in the production results achieved was the relationship between employees and management which has been developed by joint discussion procedure in committees. The unceasing study to promote safety in operations and the responsiveness of employees to extensive training in correct operating techniques were reflected in the continued downward trend in the accident rate. Since the start of operations the accident rate has been remarkably low, but it is recorded with regret than in 1943 five employees lost their lives as a result of a cordite fire of unknown cause.

The efforts of the employees as partners in a common cause deserve the highest commendation and representatives of Canada and of other countries have placed on record their high praise of the company's output and the quality of its products and their appreciation of the special services rendered.

The importance of the undertakings of Defence Industries Limited can be illustrated by citing the costs incurred on construction and manufacturing operations for the account of the British and Canadian Governments which so far have exceeded $600,000,000. Funds for the construction and operation of new plants by Defence Industries Limited were supplied by the Department of Munitions and Supply acting on behalf of the two governments, and in all but the small arms ammunition branch of its activities, the company's relationship with this department is through Allied War Supplies Corporation, a crown company formed to co-ordinate and supervise the production of wartime chemicals and explosives. Canadian Industries Limited originally invested $2,000,000 in the subsidiary company in order to provide it with funds to expand and operate the two small plants at Beloeil taken over from the parent company.

As compensation for its services in operating publicly-owned plants as agent for the government, Defence Industries Limited receives management fees, which in some contracts represent a fixed sum per unit of output and in other contracts a small fixed sum plus a correspondingly lower fixed sum per unit of output. The rates of fees have been reduced in certain instances where economies have been effected in production costs or where output has exceeded designed capacity. Since the commencement total net income from management fees, after deducting administrative expenses and estimated taxes but not the portion of taxes refundable after the war, represented less than one-fifth of one percent of all the costs incurred by the company on behalf of the government. Income of Defence Industries Limited is derived from these management fees and from operations for which capital was provided by the parent company, and the latter income was substantially eliminated in 1943 by the effect of the lower rate of production and the termination of contracts in that year. Virtually the entire income for the year was again declared in dividends, which totalled $382,500 for 1943 as compared with $430,000 in the preceding year.

SUBSIDIARY AND MANAGED COMPANIES

Subsidiary Companies

The activities of the subsidiary companies are reviewed briefly in table form on page 11 and a more detailed outline of operations in Defence Industries Limited appears on page 8.

Reduced production was experienced during 1943 by most of these companies as a result of shortages of materials and labour and changes in war demand, so that profits and dividends were generally lower. The Company's investment in the subsidiary companies is less than 5% of the total assets of Canadian Industries Limited.

Other Managed Companies

Cornwall Chemicals Limited, an associated company, reached a new high level in its production of carbon bisulphide and considerable quantities were exported to meet an acute shortage in the U.S.A. In the second year of operations profits improved but no dividends were declared.

Dunlop Tire and Rubber Goods Company Limited, in which Canadian Industries Limited has a minority interest, experienced a gradual decrease in production as crude rubber stockpiles dwindled, output being restricted on all products except tires for aircraft and military transport. Supplies of synthetic rubber which became available late in the year caused the downward trend in sales to be reversed and, with no further provision for the war contingencies reserve, net income was higher than in 1942. The dividend rate of 50 cents per share on the common stock was maintained.

RESEARCH

The chemical industry must perpetually be renewing itself. It must be prepared constantly to improve its products and processes, to develop entirely new products and new uses for existing products, and to recognize when new inventions or changed conditions render obsolete existing investment. To achieve this result research is of primary importance.

Most successful industrial chemical inventions do not result from the efforts of one individual, no matter how brilliant he may be, but from the co-operative efforts of a team of qualified staff especially trained in the problems under consideration. Adequate facilities for experimentation must be provided and many failures after years of promising work are to be expected. Furthermore, from initial laboratory success to pilot plant design, and eventually to full scale economical manufacture, is a long and expensive road.

Reference has been made in previous reports to the benefits derived by the Company from the constant exchange of information with Imperial Chemical Industries Limited, England, and E. I. du Pont de Nemours and Company, U.S.A., companies which occupy outstanding positions in the chemical industries of their respective countries. The full exchange of technical information and free licensing of processes under agreements of long standing have contributed substantially to the advance of the chemical industry in Canada, a matter of great importance at any time but one of inestimable value during the present war. Many of the recent major developments in the chemical industry are serving other manufacturing industries and are not seen directly by the public. Occasionally, however, there is a new product of general interest such as nylon. Although developed for its peacetime possibilities,

SUBSIDIARY COMPANIES

COMPANY	PRODUCTS AND OUTLETS	THE YEAR IN BRIEF
Aluminate Chemicals Limited	Sodium aluminate and chemical compounds for treatment of water for boilers, locomotives and general industrial purposes.	Despite raw material shortages, sales were only slightly below the 1942 level.
Canadian Hanson and Van Winkle Company Limited	Metal-plating supplies and equipment; degreasing solvents and machines; industrial brushes and buffs.	Government restrictions on manufacture of metal articles and completion of war construction program brought about curtailment of sales.
Canadian Safety Fuse Company Limited	Fuse and blasting accessories for mining and other essential industries. Special military supplies.	Increased production of military supplies almost offset further reduction in fuse and other commercial business.
Canadian Titanium Pigments Limited	Titanium pigments sold largely to paint manufacturers.	Demand continued at a high level and sales were further expanded.
Defence Industries Limited	Munitions production.	See page 8.
Gardinol of Canada Limited	Sulfonated alcohols used as detergents in the textile and other industries.	Limited supplies caused a decrease in sales.
McArthur Chemical Co., Limited	Wholesalers of a diversified line of chemicals as well as waxes, laundry and dry cleaning supplies, tanning extracts and other products.	Introduction of new products and substitutes for unobtainable chemicals assisted in a moderate sales advance.
Neepawa Salt Limited	Salt produced largely for general use and agricultural purposes.	Heavy demand resulted in plant operating at capacity.

nylon is at present essential for the production of an important new material urgently required for war purposes. The Company was in a position to begin construction of a plant to manufacture nylon yarn in Canada in June 1941. This is merely one example from a long list of products and processes which have aided the expansion of the chemical industry in Canada by reason of the exchange of information between this Company and its associates over a period of many years.

A number of the processes thus available to the Company were originally developed for large scale manufacture involving investment and output in excess of Canadian requirements. The modification of such processes and the design of units of economical size have been undertaken by the Company's research chemists and specialized engineers. In the field of fundamental and applied research on problems of particular importance to Canadian requirements, valuable work has been done having regard to the utilization of domestic materials or the fulfilment of specific needs.

Throughout the war years, the Company's research personnel has devoted its efforts almost exclusively to the pressing demands of wartime production. There need be no doubt however that chemists and engineers in all branches of their professions welcome the challenge to their knowledge, experience and ability foreseen in the technical problems of the postwar world.

DIRECTORS

In recording their deep regret at the death on 23rd March, 1943, of Sir Edward Beatty, G.B.E., your directors wish to pay tribute to the outstanding ability and mature judgment which marked his services as a member of the Board of Directors since December 1938, and to those personal qualities which won for him the high regard of his associates.

In April 1943 George W. Spinney, C.M.G., was elected a director of the Company.

In the New Year Honours List, H. Greville Smith, a director and officer of the Company and Vice-President and General Manager of Defence Industries Limited, was made a Commander, Order of the British Empire (Civil), in recognition of outstanding service in the field of war industry.

EMPLOYEE RELATIONS

Employment

The year 1943 probably saw the peak in wartime employment in both Canadian Industries Limited and Defence Industries Limited, the wartime subsidiary. Employment in the parent Company reached a high point of 7,200 employees in March, and declined slightly in successive months to 6,400 at the end of December, compared with approximately 7,000 employees at the end of 1942. The record of the subsidiary company showed a peak of 32,300 employees reached in March of 1943, and a subsequent decline to 26,400 by the year-end.

In the face of widespread stringency in the supply of workers, it became the duty of every employer to endeavour to augment the national manpower pool by striving to promote maximum effectiveness of personnel. Contributing to the success of the Company's efforts in this direction were such factors as the

continued maintenance of mutually satisfactory relations between the Company and its employees; a highly successful safety record achieved during the year, with a consequent reduction in man-hours lost because of accidents; and the further development of training programs for supervisors and foremen. Owing to the nature of the Company's operations, further extension of the use of women as replacements for men has not been found practicable to any marked degree. Long service employees continued to provide a core of knowledge and skill in operating techniques and their experience has been of great value during the period of rapid wartime expansion. At the end of 1943, 1,285 employees had completed ten or more years' service and of these 230 were credited with service of twenty-five years or more.

During the past year study was begun of the problems incidental to the relocation in employment with the Company of employees serving with the armed forces. Following curtailment in production schedules at certain Defence Industries Limited works the return to employment with the parent company of some former Canadian Industries Limited employees, who were transferred to the subsidiary company early in the war, was made possible.

Employee Representation

The annual election of works council representatives, held under the provisions of the Employee Representation Plan, took place in November with about 88% of eligible employees casting a vote. There were twelve works councils in office at the end of the year. The two-way contact between management and employees, fostered by the works council form of employee representation, has continued to provide a sound basis for the maintenance of a harmonious relationship between the Company and its employees. It has again demonstrated the benefit to be derived from free and open discussion and exchange of opinion on problems of mutual concern.

The question arose at two of the works of the Company during the past year as to the form of representation desired by the employee group. After a secret ballot, supervised by the Department of Labour, a majority of the employees at one of the works voted for the retention of the works council for of representation, and at the other for recognition of a nationally affiliate union. This brings to three the numbe of works where nationally affiliated unions have been recognized as representing the employees. With the concurrence of the unions provision has been made at each of these works for matters, previously dealt with by the works councils and not covered specifically in the union agreements, to be handled by plant advisory committees composed of elected and appointed members. Such matters include industrial relations plans, improvement of production methods, safety and accident prevention and employee canvasses for Victory Loans and War Savings Certificates.

Industrial Relations Plans

The extent to which the Company's industrial relations plans meet social security objectives is made clear in the table on page 14. Although the general program of assisting employees in the furtherance of their own security through industrial relations plans has been somewhat retarded by the war, the substantial protection offered by the plans has been, and continues to be, a stabilizing factor. In spite of the uncertainties of the moment, however, consideration has been given to changes in the plans which employees have felt to be desirable, and constant attention has been given to the question of whether each of the plans has continued to fulfil the purpose for which it was intended.

CANADIAN INDUSTRIES LIMITED

SOCIAL SECURITY FEATURES OF INDUSTRIAL RELATIONS PLANS

	SAVINGS	VACATIONS	ILLNESS OR INJURY	HOSPITALIZATION	RETIREMENT	DEATH
NAME of PLAN	**Co-operative Savings Plan.** A yearly plan first introduced in 1935.	**Vacation Plan.** A yearly plan first introduced in 1935.	**Disability Wage Plan.** Original plan introduced in 1937.	**Co-operative Health Insurance Plan.** Original plan introduced in 1935.	**Pension Plan.** Original plan introduced in 1919.	**Employees' Benefit Plan.** Original plan introduced in 1920.
PURPOSE of PLAN	To encourage regular saving. Since 1940 the major portion of employees' savings under the Plan has been invested in war savings certificates.	To provide an annual vacation with pay of two weeks or one week depending on length of service.	To provide against total loss of earnings during periods of disability resulting from illness or accident. Maximum payment equivalent to thirteen weeks' full wages following first week of absence.	To provide against extraordinary hospital, surgical and certain other medical expenses arising from non-occupational disabilities.	To provide monthly payments to employees substantially incapable of continuing to perform normal duties. (Non-contractual).	To provide on the death of an employee or pensioner a benefit ranging from $1,000 after six months' service to $1,500 after five years.
EMPLOYEES ELIGIBLE to PARTICIPATE	Employees having one year's service on 1st January of the current year and earning not more than $250 a month.	Payroll employees who on 30th April of each year have one year's service receive two weeks; those with six months' service receive one week.	Payroll employees having one year's service, excluding a limited number of wartime employees because of certain disabilities.	Employees having six months' service, excluding a limited number of wartime employees because of certain disabilities.	Pre-war employees having 15 years' service.	Pre-war employees (including those on national service) and pensioners.
COMPANY'S DIRECT CONTRIBUTION	Company contributes in war savings certificates 25 cents on each dollar of employees' savings invested in war savings certificates at end of Plan.	Total cost borne by Company.		Premiums paid jointly by Company and participating employees.	Total cost borne by Company.	

The Employees' Benefit Plan was amended as of 1st January, 1943, and arrangements were made for the benefits to be provided by group life insurance, still entirely at the Company's expense. The terms of the Plan remain virtually unchanged, except that employees leaving the Company have the opportunity to convert to a standard life insurance policy.

Accident Prevention

The long-standing recognition of the importance of accident prevention and the diligent collaboration of employees have brought about the achievement in 1943 of a higher state of safety in working conditions and operating practices than ever before existed in the Company's history. Notwithstanding the continuance of supervisory and production problems and the necessary restriction of general plant maintenance and improvements, the Company's employees, working a considerably greater number of man-hours, suffered fewer injuries during the year than in any of the three preceding war years. The annual accident frequency rate for all operations of the Company is the lowest recorded since the accident prevention activities were placed on a centrally organized basis in 1928.

Staff Training

Prior to the war, a start was made at some of the larger works in developing amongst all levels of supervisory staff a clear understanding of the accepted principles of good supervision. With the wartime expansion in the Company and the consequent rapid increase in the number of supervisory personnel with comparatively limited experience, these training efforts have been intensified and extended to other works. Conference programs have been undertaken as a means of instructing supervisory staff in safety, waste prevention, employee representation, and other subjects.

National Service

The practice was continued of maintaining, at certain levels depending on marital status, the income of pre-war male employees granted leave of absence to join the armed forces. Wartime male employees who joined the forces continued to receive a leaving grant based on their wages or salary on the date of the termination of their employment.

Although by reason of their being key men in essential production it has been necessary to seek deferment of military service for some employees with specialized qualifications, the number of employees serving in the armed forces has steadily increased. The Board extends its sincere sympathy to the relatives and friends of those employees of the Company who have died on active service or who have been reported missing.

Victory Loans and War Savings Certificates

The canvass of employees by employees on the occasions of the Fourth and Fifth Victory Loans achieved a high level of participation, and total subscriptions by employees of Canadian Industries Limited amounted to $1,314,000. War Savings Certificates totalling $424,000 were purchased through the Co-operative War Savings Plan, and the Voluntary War Savings Deduction Plan. Subscriptions by employees of Defence Industries Limited to the Fourth and Fifth Victory Loans amounted to $5,169,000 and an additional amount of $623,000 was invested in War Savings Certificates through payroll deductions.

Bonus Plan

For twenty-five years the outstanding services of employees in assisting to formulate and carry out Company policies have been recognized by means of the Bonus Plan. Such efforts beyond the scope of regular duties are normally

reflected in Company profits, but in the present emergency, employees' achievements must also be measured by the success with which they are instrumental in causing the organization to adjust itself to wartime requirements. Information supplied by senior executives as to the merit and performance of employees under their jurisdiction forms the basis upon which individual bonuses are considered by the Bonus Committee, which reports its decisions for the approval of the Board of Directors. The Bonus Committee is appointed annually by the Board of Directors and is composed of directors who are not salaried officers or employees of the Company.

The continued reduction in the earnings of the Company, which is largely the result of war conditions and high corporate tax rates, again caused the amount available for bonus awards to decline from the previous year, and in 1943 the fund was at the lowest level in the past ten years. The Plan provides that not more than 15% of the earnings of the Company in excess of 6% on the capital stock and earned and capital surplus may be set aside by the Board of Directors for bonus awards; the income from and the investment in General Motors Corporation are not included in the calculations.

Awards for the year 1943 were made to 184 employees, including the President and the First Vice-President who are also directors of the Company. In accordance with the provisions of the Plan these awards are deliverable to participants in four equal annual instalments; the first quarter has been made payable in cash but the remaining instalments will be deliverable in either cash or stock of the Company or both, in accordance with the decision of the Bonus Committee to be taken immediately prior to each delivery. In this way it will be possible to revert to the policy of encouraging employee stock ownership by making bonus deliveries at least partly in non-voting common shares of the Company as soon as personal rates of income tax are at levels which will make it reasonable to expect participants to retain the shares. The operation of the Bonus Plan is subject to the approval of the Board of Directors and to the provisions of the Wartime Salaries Order.

Organization

As a result of further expansion of the Company and the additional management problems which were involved, in April 1943 H. Greville Smith was elected First Vice-President; the Treasurer, R. W. Sharwood, was appointed Vice-President and Treasurer; and Herbert H. Lank was appointed a Vice-President.

To ensure proper co-ordination of the studies and activities related to postwar planning undertaken by the groups and departments of the Company, the Postwar Development Committee was constituted towards the end of the year.

The measure of success achieved by the Company in 1943, as well as the spirit of confidence and resolution with which the future and its problems are faced, arises directly out of the alert, energetic and loyal support of the employees. In practically every works and office it has been necessary to supplement the skill and ability of older employees with untrained personnel, and this fact makes more notable and praiseworthy the maintenance of efficiency and safety throughout the organization.

The manner in which each individual has set his or her course, not only in the performance of the allotted task but also in undertaking numerous volunteer wartime activities, cannot be too highly praised. The Board is proud to be associated with the employees in the united effort to meet the demands of the nation during these crucial years.

FINANCIAL REVIEW

The contradictory pattern of wartime financial results—increasing investment and production accompanied by declining profits—which developed during the preceding three years was even more marked in 1943. While the Company's sales edged forward to a new record level, net income was lower than in any year since 1935.

Not only has the trend in net income been down each year since 1939 in spite of the abnormally large volume of business and the greater investment in manufacturing facilities, but the profits, even before taxes, were lower in 1943 and 1942 than in 1941. A greater drop has been prevented only by the maintenance of a high level of sales and rigid control over expenditures that remain variable.

More than ever before has it been necessary to rely on judgment in evaluating the financial results from operations for the year. War supplies urgently required are frequently produced and delivered before final prices have been established and profits may, therefore, be subject to revision. Furthermore, although every effort is made to interpret the complex legislation and regulations, tax provisions in respect to current profits must be considered as estimates until confirmed by the Department of National Revenue. Careful consideration has, therefore, been given to the possible effect of these many uncertainties, and reasonable provision has been made in arriving at the financial results for the year.

Income from Operations

Operating difficulties increased during the fourth war year and more frequent equipment breakdowns, together with inevitable delays in making repairs, added to production costs. The delivered cost of raw materials, many of which come from abroad and are not subject to price ceilings, again moved upward and wage costs have continued to advance. As a result of the previously stated policy of complying with the spirit as well as the letter of the regulations of the Wartime Prices and Trade Board, higher costs have necessarily been reflected in lower profits. During the emergency, industry is being asked to make sales to the government at prices which would not prove economically possible over a more extended period and consequently lower profits have also resulted from the concentration of effort to produce materials most urgently needed in wartime. Where savings in costs have been effected voluntary refunds have been made to the government.

Income from Investments

Income received from subsidiary and managed companies and from marketable securities again declined and was 10% lower than in 1942. The largest reduction in income from subsidiary companies occurred in dividends from Defence Industries Limited which for 1943 were equal to 54 cents per share of the common stock of Canadian Industries Limited as against 60 cents per share in the previous year; this is covered more fully on page 9. There was no change in dividends received from General Motors Corporation, but income from other marketable securities was somewhat higher due to the larger average holdings of Dominion Government securities.

As in previous years, earnings of subsidiary companies have not been consolidated with those of Canadian Industries Limited and have been included in investment income only to the extent of the Company's share of dividends declared. The total income of subsidiaries for 1943, to which all such companies contributed, exceeded dividends declared by $209,000.

Provision for Taxes

There were no major changes in the Canadian tax structure during the year and the further decrease in operating profits caused total 1943 income to be reduced to a level at which the 40% minimum combined tax rate was applicable. The amount of $3,150,000 provided for income and excess profits taxes, therefore, represents a slightly smaller percentage of profit before taxes than in the preceding year when part of the income was taxed at the 100% rate. In view of the application of the minimum excess profits tax rate no portion of 1943 taxes is refundable after the war. Income and excess profits taxes payable by subsidiary companies totalled $1,776,000 as compared with $1,600,000 in 1942, but in two companies the standard profits have yet to be established by the Board of Referees, and the estimated taxes may require to be adjusted at a later date.

Net Income and Dividends

Net income of $4,445,000 for 1943 was down 4% from the preceding year. Earnings were equivalent to $5.88 per common share as compared with $6.12 in the previous year. Recognizing that substantial losses may be incurred as a result of steps taken by industry to ensure maximum production of essential materials, a further amount of $200,000 has been set aside out of the year's profits and added to the war contingencies reserve. The total reserve against such possible losses, which are not at present capable of accurate determination, amounts to $1,150,000.

Regular quarterly dividends amounting to $7.00 per share were paid on the preferred stock. Following the downward trend in earnings, dividends on the common stock have been reduced in each of the war years and the total of $5.25 declared for 1943 is the lowest since 1933. Disbursements of $1.25 each per share were made in April, July and October and a final dividend of $1.50 per share was paid in December. Net income for the year exceeded dividends by $444,000 and earned surplus stands at $5,781,000 of which almost two-thirds is not available for distribution under Foreign Exchange Control Board regulations covering dividends.

Current Assets

The expansion of almost $3,000,000 in net current assets during 1943 was mainly attributable to the accumulation of funds as a result of additions to depreciation and other reserves, to the retention of a portion of earnings within the Company, and indirectly to the absence of any major expenditures on new fixed investment. Although during the initial years of the war the greater volume of sales and the additional production facilities necessitated an increase in inventory holdings, the removal of some of the uncertainties in the short-term planning of production operations permitted a reduction during 1943. Inventories valued at the lower of cost or market, less the reserve against possible decline in values, amounted to $9,041,000 at 31st December, as compared with $11,954,000 at the close of the previous year.

Fixed Assets

Adoption of technological advances and normal expansion of commercial production facilities have had to be suspended in wartime, and the net increase of $671,000 in plants, buildings and equipment, and land during 1943 is $1,267,000 below the average for the past ten years. New projects authorized during the year totalled $357,000 and included expenditures designed to increase the manufacturing capacity of existing fertilizer plants and the installation of some new equipment to produce materials for military purposes.

Repairs and maintenance charges totalling $2,253,000 during the year

were higher than in any previous year as the continued excessive rate of output is having an increasingly serious effect on machinery and equipment. Furthermore, some deferment of repairs and maintenance is inevitable, and provision for this future cost arising out of current operating conditions is included in the war contingencies reserve. Operating costs have been charged with $2,789,000 for depreciation, for the most part at pre-war rates, but at higher rates in the case of some new facilities expected to be of reduced value after the war.

CONCLUSION

Before the publication of the next annual report it is possible that industry will have begun to turn from the production of war materials to the supplying of peacetime needs. A partial answer to what constitutes reasonable expectations of the future progress of Canadian Industries Limited may be found in a brief review of the growth of the Company between 1929 and 1939.

As a result of the introduction of new products, the development of new uses for industrial chemicals and the stimulus of an average reduction of 17% in selling prices, sales increased by 80% during those years. The number of employees was 77% greater at the end than at the beginning of the period, wage rates were at a much higher level, and industrial relations plans containing social security features were extended. Manufacturing facilities were also increased substantially during the period, and it is significant that more than 90% of the expansion resulted from expenditures by the Company for the enlargement of existing plants or the construction of new productive capacity, and less than 10% from the acquisition of established enterprises.

Yet management in the chemical industry is not looking to the past. Just as the industry has grown by concentration on research and the practical application of scientific findings, so will future progress be dependent upon a breadth of vision capable of discerning in the wealth of new knowledge coming from the chemical laboratory those discoveries that can be developed to meet consumer needs.

On behalf of the Board of Directors,

G. W. HUGGETT,
President and Managing Director.

Montreal, Canada, 17th March, 1944.

AUDITORS' REPORT TO THE SHAREHOLDERS

Canadian Industries Limited,
Montreal.

We have audited the books of account and financial records of Canadian Industries Limited for the year ended 31st December, 1943, and have obtained all the information and explanations we have required.

The inventories shown on the attached Balance Sheet have been determined and certified by the management of the Company.

In accordance with Section 114 of the Dominion Companies Act, we report that profits earned by subsidiary companies for the year 1943 have been included in the attached accounts only to the extent of the dividends declared and received or receivable by the Company.

We certify that, in our opinion, the attached Balance Sheet and relative Statements of Income and Surplus are properly drawn up so as to exhibit a true and correct view of the state of the Company's affairs as at 31st December, 1943, and the result from operations for the year ended that date, according to the best of our information and the explanations given to us and as shown by the books of the Company.

P. S. ROSS & SONS,
Chartered Accountants.

Montreal, 11th February, 1944.

CANADIAN INDUSTRIES LIMITED

STATEMENT OF INCOME AND EARNED SURPLUS

FOR THE YEAR ENDED 31ST DECEMBER, 1943

Income from Operations after charging all expenses including depreciation		$ 6,952,078
Income from Investments	$ 845,595	
Loss on sale of Marketable Securities	2,403	843,192
		$ 7,795,270
Provision for War Contingencies	$ 200,000	
Reserve for income and excess profits taxes	3,150,500	3,350,500
NET INCOME FOR THE YEAR		$ 4,444,770
Dividends:		
Preferred 7% Cumulative Stock	$ 325,500	
Common Stock ($5.25 per share)	3,675,740	4,001,240
		$ 443,530
Earned Surplus at 1st January, 1943		5,337,290
EARNED SURPLUS AT 31ST DECEMBER, 1943		$ 5,780,820

Note: Included in the expenses charged against Income from Operations are the following items: depreciation $2,789,050, remuneration of executive officers including bonus awards $217,711, directors' fees $19,961 and legal expenses $1,361.

STATEMENT OF CAPITAL SURPLUS

FOR THE YEAR ENDED 31ST DECEMBER, 1943

CAPITAL SURPLUS AT 1ST JANUARY, 1943		$15,079,214
Adjustment of Realization of Assets in prior years	$ 138,197	
Less: Gain on sale of Assets in 1943	4,556	133,641
CAPITAL SURPLUS AT 31ST DECEMBER, 1943		$14,945,573

CANADIAN INDU

BALANCE SHEET AT

ASSETS

CURRENT ASSETS			
Cash		$ 1,676,119	
Dominion Government Securities (Market value $7,387,263)		7,397,513	
Accounts Receivable, less reserve for doubtful accounts		5,462,757	
Customers	$4,735,225		
Subsidiary Companies	449,015		
Other Accounts	278,517		
Inventories, valued at the lower of cost or market price, less reserve against future loss in inventory values		9,040,575	$23,576,964
DEFERRED CHARGES TO OPERATIONS			238,271
PORTION OF 1942 TAXES REFUNDABLE AFTER THE WAR			60,700
PREFERRED SHARES IN TRUST FOR EMPLOYEES' WELFARE PLANS			181,084
FIXED ASSETS			
Plants, Buildings and Equipment, based on the appraisals of the National Appraisal Company (1927 to 1929) as adjusted by the Company's own engineers, with subsequent additions at cost		41,528,667	
Land, at cost		1,661,632	
Goodwill, Patents and Processes		3,378,151	46,568,450
Investments in Subsidiary Companies		3,304,411	
Shares in Other Companies (including marketable shares, book value $2,500,000, market value $7,218,750)		3,787,785	7,092,196
			$77,717,665

Approved on behalf of the Board,

G. W. HUGGETT
C. C. BALLANTYNE } *Directors.*

STRIES LIMITED

31ST DECEMBER, 1943

LIABILITIES

CURRENT LIABILITIES			
Accounts Payable		$ 3,189,012	
Subsidiary Companies		14,298	
Dominion and Municipal Taxes		1,877,739	
Dividends Declared		81,375	$ 5,162,424
DEFERRED LIABILITIES			305,141
RESERVES			
Depreciation of Securities		1,200,000	
Depreciation of Plants, Buildings and Equipment		24,078,782	
Pension and Benefit Plans and Self Insurance (In addition $817,002 is held in an irrevocable Pension Trust Fund)		4,545,318	
War Contingencies		1,150,000	30,974,100
CAPITAL STOCK			
Authorized	Shares		
Preferred 7% Cumulative Stock (par value $100)	75,000		
Common Stock (no par value)			
Class "A" Voting	660,000		
Class "B" Non-voting	690,000		
Issued and Fully Paid			
Preferred Stock	46,500	4,650,000	
Common Stock			
Class "A" 615,974			
Class "B" 84,167	700,141	15,899,607	
CAPITAL SURPLUS		14,945,573	35,495,180
EARNED SURPLUS (Including $60,700 for the portion of 1942 taxes refundable after the war)			5,780,820
			$77,717,665

This is the Balance Sheet referred to in our attached report of even date.

P. S. ROSS & SONS, *Chartered Accountants.*

Montreal, 11th February, 1944.

CANADIAN INDUSTRIES LIMITED

CELLULOSE PRODUCTS GROUP

"CELLOPHANE" DIVISION	Plain transparent and moistureproof transparent "Cellophane" cellulose film.
"FABRIKOID" DIVISION	"Fabrikoid", pyroxylin and synthetic resin coated fabrics; "PX" bookbinding, case coverings; "Washade" window shades; "Alprox" quarterlinings, shoe buckram and other footwear materials.
PAINT AND VARNISH DIVISION	Finishes for every purpose in home and industry, including such trade-mark products as "Duco", "Dulux", "Pyralux", "Trutone" White and "Cilux" Enamel. A complete range of finishing materials for the automotive, railway, marine, aircraft, industrial, maintenance and retail trades.
PLASTICS DIVISION	Combs; tooth-brushes; "Lucite" and other transparent and opaque plastic sheets, rods and tubes; moulding powders; "Plaskon" resin glue for plywood; X-ray film and chemicals; "Lucitone" denture material; nylon monofilament for brush bristles, etc.

CHEMICAL GROUP

ALKALI DIVISION	Caustic soda and other alkalis; chlorine; bleaching powder and other chlorine derivatives.
GENERAL CHEMICALS DIVISION	Commercial and C.P. acids; ammonia and other refrigerant gases; zinc and ammonium chlorides; fluxes; sulphites and hyposulphite; silicates and numerous reagents and heavy chemicals.
NYLON DIVISION	Nylon yarn for the textile industries.
ORGANIC CHEMICALS DIVISION	Dyestuffs; dry colours and pigments; intermediates; mining chemicals; neoprene, rubber colours and chemicals; solvents; ceramic materials and other organic chemicals.
SALT DIVISION	All grades of "Windsor" salt for household, agricultural and industrial purposes.

EXPLOSIVES AND AMMUNITION GROUP

"DOMINION" AMMUNITION DIVISION	Small arms ammunition; loaded and empty shot shells and metallic cartridges embodying "Super-Clean" non-mercuric priming; railway fusees and track signals, explosive rivets, etc.
EXPLOSIVES DIVISION	Commercial explosives and blasting accessories.

FERTILIZER GROUP

FERTILIZER DIVISION	Superphosphate; complete fertilizers; "Gardenite" plant food; insecticides; "Cel-O-Glass", "Sol-Min" and "Pig-Min" (mineral supplements); "Stable-Phos"; "Delsterol" (Vitamin "D"), etc.

NB—Chemicals and allied products are subject to wartime restrictions.

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